

## Message Text

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ACTION EA-10

INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-09 RSC-01 IO-10 ISO-00

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NSC-05 PA-01 AID-05 CIEP-01 SS-15 STR-01 TAR-01

TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 CAB-02 DOTE-00

FAA-00 AEC-05 FPC-01 PM-03 SAM-01 OES-03 CU-02 SAJ-01

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FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 3618

INFO USLO PEKING

AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY MOSCOW

AMEMBASSY RANGOON

AMEMBASSY ROME

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY VIENTIANE

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CINCPAC FOR POLAD

E.O. 116TWC N/A

TAGS: ECRP, CH, XX

SUBJECT: PEOPLE'S REPUBLIC OF CHINA -- ECONOMIC REVIEW 2

REF: CERP 0003

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1. SUMMARY OF ACTIVITIES DURING THE REPORT PERIOD  
CHINA'S NATIONAL PEOPLE'S CONGRESS, THE FIRST IN A DECADE, WAS THE OCCASION FOR REASONABLE CLAIMS OF ECONOMIC PROGRESS AND MODESTLY STATED GOALS FOR BOTH 1980 AND 2000 THAT WILL NONETHELESS REQUIRE CONSIDERABLE SUSTAINED EFFORTS (ITEM 2). ON THE FOREIGN SIDE, OIL WAS A FOCUS OF MAJOR ATTENTION AS THE PRC CITED ARCHAEOLOGICAL FINDS TO SUPPORT ITS CLAIM TO THE PARACELS (ITEM 6), JAPAN DICKERED TO PUT PAYMENT TERMS INTO DOLLARS VICE RMB (ITEM 7), AND A PRC VICE MINISTER TRAVELED IN LATIN AMERICA PERHAPS LOOKING FOR FOREIGN TECHNOLOGY (NCNA). THE CUBANS HAVE ARRIVED IN PEKING FOR TRADE TALKS, ON PAST FORM, THEY COULD TAKE MONTHS, PARTICULARLY AS THE PRC MAY HAVE ALTERNATE SOURCES FOR SUGAR THIS YEAR (ITEM 8). CHINA'S TRADE PROBLEMS WERE HIGHLIGHTED BY DATA FOR HONG KONG, ITS SECOND BIGGEST MARKET: FOR THE FIRST NINE MONTHS OF LIMITED OFFICIAL USE

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1974, PRC EXPORTS WERE DOWN 20 PERCENT AND ITS MARKET SHARE DECLINED BY 2 PERCENT. MEANWHILE, THE PRC CONTINUES TO COMMIT ITSELF TO AID PROJECTS IN AFRICA (ITEM 10) -- WHERE IT IS SUPPLANTING THE ROC -- AND IN LAOS, WHERE IT WILL EXPAND THE ROAD NET IT IS BUILDING (HK 974). IN ANOTHER TIE WITH LAOS, CAAC HAS CONCLUDED A TECHNICAL SERVICES AGREEMENT WITH THE LAOS CAA (ITEM 4). END  
SUMMARY

## 2. ECONOMIC ASPECTS OF CHINA'S NPC

FOR THE FIRST TIME IN OVER A DECADE THE PRC HAS CONVENED A NATIONAL PEOPLE'S CONGRESS, WHICH HAS APPROVED A NEW CONSTITUTION, A REPORT ON IT BY CHANG CHUN-CHIAO, AND A GOVERNMENT WORK REPORT DELIVERED BY CHOU EN-LAI. THE ECONOMIC ASPECTS OF THE NEW PRC CONSTITUTION ESTABLISH A NOTABLY MODERATE AND FLEXIBLE STRUCTURE FOR IMPLEMENTING ECONOMIC POLICY (HK 818). THE NEW CONSTITUTION, IN CHANG CHUN-CHIAO'S WORDS, REFLECTS THE "TREMENDOUS CHANGES" THAT HAVE TAKEN PLACE IN CHINA SINCE THE FORMER CONSTITUTION OF 1954. AS SUCH, IT REFLECTS THE OBVIOUS MOVEMENT TO COLLECTIVIZATION AND SOCIALISM SINCE THEN, BUT WHEN VIEWED AGAINST RECENT EVENTS, SUCH AS THE CULTURAL REVOLUTION AND ITS AFTERMATH, IT APPEARS TO REPRESENT A VICTORY FOR THE MODERATES. THE GOVERNMENT WORK REPORT (HK -910), DELIVERED BY CHOU EN-LAI, MAKES REASONABLE CLAIMS OF ECONOMIC PROGRESS AND SETS MODERATE GOALS FOR BOTH 1980 AND THE END OF THE CENTURY. CHOU'S CLAIMS OF ECONOMIC PROGRESS IN THE DECADE SINCE 1964 ARE MODERATE AND WITH A FEW EXCEPTIONS, NOTABLY STEEL, SQUARE REASONABLY WELL WITH OUR CURRENT WORKING ESTIMATES. THE REPORT MENTIONS NEITHER A NEW LEAP FORWARD NOR AN UPSURGE, BUT THE CHANGES ENVISAGED WILL REQUIRE GREAT EFFORTS. THE REPORT IS TEMPERATE IN TONE AND IT EMPHASIZES PLANNED DEVELOPMENT AS THE MEANS TO THESE GOALS. BOTH A FIVE YEAR PLAN AND A TEN YEAR PLAN WILL BE WRITTEN BY THE STATE AND ALL LEVELS ARE CALLED UPON TO DEVELOP THEIR OWN RELATED PLANS. WHAT'S MISSING, THOUGH, IS MAO'S CLEAR BLESSING OF THESE POLICIES. (LIMITED OFFICIAL USE

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## 3. CIVIL AVIATION: PRC-LAOS

THE PRC SIGNED A PROTOCOL IN PEKING JANUARY 10 WITH THE LAO CIVIL AVIATION ADMINISTRATION ON THE MUTUAL SUPPLY OF TECHNICAL SERVICE. AT THE SAME TIME TWO AGREEMENTS WERE ALSO SIGNED BETWEEN THE AIR-TRANSPORT ENTERPRISES OF THE TWO COUNTRIES (NCNA JANUARY 11). THE PROTOCOL AND TECHNICAL SERVICE AGREEMENTS SUPPLEMENT THE CIVIL AIR AGREEMENTS SIGNED BETWEEN THE TWO COUNTRIES IN AUGUST 1974. THEY PROVIDE THE FRAMEWORK FOR THE INITIATION OF A LAOTIAN-PRC AIR SERVICE AND SUGGEST THAT SOME ACCOMMODATION WITH THE PRC MAY HAVE BEEN REACHED ON ITS OBJECTIONS TO THE USE OF NON-LAO PILOTS (1974 VIENTIANE 7007). ACCORDING TO AFP VIENTIANE THE LAOTIAN AIRLINE WILL COMMENCE SERVICE BETWEEN VIENTIANE AND CANTON IN FEBRUARY. IF SERVICE DOES BEGIN, IT WILL MARK THE FIRST TIME THAT CANTON HAS BEEN

PROVIDED WITH REGULAR INTERNATIONAL AIR SERVICE.  
CANTON WAS ALSO MENTIONED AS A POSSIBLE ALTERNATIVE  
LANDING SITE NB ALONG WITH  
PEKING AND SHANGHAI FORGUL AND  
AIR FRANCE IN THE JANUARY 17 AMENDMENT TO THE JAPAN-  
FRANCE CIVIL AVIATION AGREEMENT (TOKYO KYODO JANUARY 17).  
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4. SHIPPING: PRC-SWEDEN MARITIME AGREEMENT

THE PRC ANNOUNCED THE SIGNING JANUARY 18 IN PEKING OF A MARITIME TRANSPORT AGREEMENT WITH SWEDEN. SWEDEN THUS JOINS ITS SCANDINAVIAN NEIGHBORS, NORWAY (AUGUST) AND DENMARK (OCTOBER ) IN CONCLUDING MARITIME AGREEMENTS WITH THE PRC. ONE OF SWEDEN'S AIMS IS PRESUMABLY SIMILAR TO THAT OF DENMARK (1974 COPENHAGEN 3153) IN SEEKING RELIEF FROM THE PRC'S TRANSPORTATION TAX ON ITS FLAG VESSELS ENGAGED IN TRADE WITH THE PRC. (UNCLASSIFIED)

5. JAPANESE OIL IMPORTS FROM CHINA: EXCHANGE RISK, SETTLEMENT CURRENCY, AND PRICE

ACCORDING TO A KYODO REPORT OF A PRESS CONFERENCE BY CHAIRMAN IDEMITSU OF IDEMITSU KOSAN, THE RECENT JAPANESE ECONOMIC DELEGATION TO THE PRC RAISED FOUR ISSUES RELATED TO THE IMPORT OF OIL FROM CHINA: (A) DENOMINATION OF THE CONTRACT IN DOLLARS; (B) PAYMENT IN DOLLARS; (C) A LOWER PRICE; AND (D) A GOVERNMENT-TO-GOVERNMENT AGREEMENT GOVERNING THE IMPORT OF OIL. THE CHINESE WERE "CONCILIATORY" ABOUT THE FIRST TWO POINTS, LINKED PRICE TO LONG-TERM JAPANESE IMPORT INTENTIONS AND OPPOSED POINT (D). (UNCLASSIFIED)

COMMENT: THE OIL IMPORT CONTRACT IS PRESENTLY DENOMINATED AND PAID FOR IN RMB. THE APPRECIATION OF THE RMB VIS-A-VIS THE YEN HAS PUSHED THE EFFECTIVE DOLLAR PRICE FROM \$12.80 A BARREL IN OCTOBER TO \$13.90 RECENTLY, ACCORDING TO NEWSPAPER REPORTS. THIS PAYMENT SYSTEM MAKES THE JAPANESE BEAR THE EXCHANGE RISK BUT THE PRC HAS RECENTLY MADE EXCEPTIONS FOR SHIPMENTS OF STEEL AND FERTILIZER ON CREDIT (SEE HK 68). THE PRC HAS ALSO REFUSED TO SETTLE IN DOLLARS, ALLEGING THE FOREIGN ASSETS PROBLEM IN THE US AS AN OBSTACLE. WILLINGNESS TO USE DOLLARS RATHER THAN STERLING WOULD BE A MAJOR SHIFT IN POLICY. FINALLY, THE PRC WOULD PREFER TO DEAL WITH SEVERAL PRIVATE COMPANIES RATHER THAN HAVE ITS MONOPOLY MATCHED BY MITI. (LIMITED OFFICIAL USE)

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6. PRC CLAIMS THAT ARCHAEOLOGICAL FINDS SUPPORT CLAIM TO PARACELS

THE PRC HAS ANNOUNCED ARCHAEOLOGICAL FINDS IN THE HSISHA (PARACEL) ISLANDS, DATING BACK TO THE TANG AND SUNG DYNASTIES, WHICH IT OFFERS AS HISTORICAL SUPPORT TO ITS CLAIM OVER THE ISLANDS. A NUMBER OF REPORTS PUBLICIZING THE ARCHAEOLOGICAL DISCOVERIES HAVE ALSO INDICATED SUBSTANTIAL CONSTRUCTION ACTIVITY-- METEOROLOGICAL STATIONS, MARINE PRODUCTS PROCESSING PLANTS, WAREHOUSES, ETC.-- OF A NATURE SUGGESTING PERMANENT OCCUPATION PLANS. ONE SUCH REPORT REVEALED THE EXISTENCE OF "WELL-DRILLING TEAMS" THAT ARE "BUSY DAY AND NIGHT PROSPECTING FOR UNDERGROUND DEPOSITS." (PEKING NCNA DOMESTIC JANUARY 19). PRC OIL DRILLING ACTIVITY IN THE PARACELS WAS FIRST ACKNOWLEDGED PUBLICLY -- TO DOMESTIC CANTON TV VIEWERS -- IN JUNE 1974 (1974 HK 6572).

THE PRC IS NOW SEEKING HISTORICAL AND LEGAL SUPPORT FOR ITS MOVE IN JANUARY 1974 TO OUST THE SOUTH VIETNAMESE AND TAKE FULL PHYSICAL POSSESSION OF THE PARACELS. DEPENDING ON THE DRILLING RESULTS, IT MAY ALSO SOON HAVE AN IMPORTANT ECONOMIC INTEREST -- AN INTEREST THAT WOULD UNDOUBTEDLY BE SHARED BY OTHER CLAIMANTS TO THE ISLANDS, INCLUDING THE DRV. (LIMITED OFFICIAL USE)

7. VOLUME OF CHINESE EXPORTS TO HONG KONG DROPS 20 PERCENT ACCORDING TO HONG KONG GOVERNMENT PRICE (UNIT VALUE) AND QUANTITY INDICES, IMPORTS FROM CHINA (INCLUDING RE-EXPORTS), HAVE DECLINED 20 PERCENT IN THE FIRST THREE QUARTERS OF 1974 COMPARED TO THE CORRESPONDING PERIOD OF 1973. IMPORTS FROM ALL COUNTRIES HAVE FALLEN 4 PERCENT. IN EVERY MAJOR CATEGORY BUT ONE -- FUELS -- IMPORTS FROM CHINA ARE DOWN MUCH MORE SHARPLY THAN SUPPLIES FROM OTHER AREAS. CONVERSELY, CHINESE PRICES HAVE RISEN MORE RAPIDLY THAN IMPORT PRICES IN GENERAL, EXCEPT FOR FUELS. IN OTHER WORDS, IN THE QUINTESSENTIALLY CAPITALIST MARKET OF HONG KONG, THOSE THAT DO NOT PRICE COMPETITIVELY, SUFFER. HIGHER PRICES HAVE NOT MADE UP FOR THE LOSS OF VOLUME SO THAT CHINA'S SHARE OF THE MARKET HAS DECLINED FROM 17 PERCENT TO 15 PERCENT. THE EXTENT OF THE FALL AMONG THE DIFFERENT CATEGORIES HAS VARIED GREATLY. RAW MATERIALS AND SEMI-MANUFACTURED

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INPUTS INTO HONG KONG INDUSTRY (20 PERCENT OF TOTAL IMPORTS

FROM THE PRC),HEAVILY IN THE TEXTILE AREA, HAVE DECLINED  
30 PERCENT WHILE CONSUMER GOODS (ABOUT 15 PERCENT OF  
IMPORTS) HAVE DROPPED 27 PERCENT. THE LARGEST CATEGORY  
FOODSTUFFS (ABOUT ONE-HALF) HAS FALLEN 3 PERCENT. FUELS,  
THE NEW STAR OF CHINESE EXPORTS HAS A COMPLETELY DIFFERENT  
TREND. IT HAS RISEN 7.5 TIMES FROM A TINY BASE AND NOW  
ACCOUNTS FOR 1 PERCENT OF SHIPMENTS OR ABOUT US\$11,000,000.  
INTERESTINGLY ENOUGH, CHINESE PRICES IN THIS SECTOR HAVE  
RISEN ONLY 60 PERCENT COMPARED TO 180 PERCENT FOR POL  
FROM ALL SOURCES. CHINA REMAINS A MARGINAL SUPPLIER WITH  
ABOUT 3 PERCENT OF THE MARKET. (LIMITED OFFICIAL USE)

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8. SINO-CUBAN TRADE TEAMS SETTLE DOWN FOR A LONG WINTER'S  
CHAT

THE CUBAN TRADE DELEGATION HEADED BY VM FOREIGN  
TRADE, GERMAN ANMADO BLANCO, FLEW INTO WINTRY PEKING ON  
DECEMBER 22 TO BEGIN TALKS ON THE 1975 TRADE PROTOCOL,  
AND WAS GREETED ON ARRIVAL BY VM FT CHAI SHU-FAN,  
AND FT BUREAU DIRECTOR, CHENG TO-PIN (NCNA). ON PAST  
FORM, THE CURRENT TALKS COULD BE LONG: BLANCO NEGOTIATED  
IN PEKING FROM FEBRUARY TO MAY 1974, AND THE SIGNING OF  
THE 1974 AGREEMENT WAS DELAYED UNTIL JULY 6, 1974 WHEN  
CHAI VISITED HAVANA (ER 14). ALONG WITH CHINESE IDEO-  
LOGICAL IRRITATION WITH CASTRO, CUBAN NON-FULFILLMENT OF  
ITS SUGAR DELIVERY QUOTA HAS BEEN A MAJOR SOURCE OF PRC  
DISSATISFACTION. MOREOVER, RECENT PRESS REPORTS IN  
THE "JAPAN TIMES" OF CUBAN LONG-TERM, LARGE -SCALE OFFERS  
OF SUGAR TO JAPAN (FOR HARD CURRENCY) WILL PROBABLY  
NOT SWEETEN THE PRESENT NEGOTIATIONS IN PEIKING. PEKING  
MAY ALSO HAVE GREATER FLEXIBILITY IN THE NEGOTIATIONS  
THIS YEAR, AS THE RECENTLY PURCHASED BULK SUGAR BAGGING  
FACILITY (ER 24) ALLOWS OIT TO PURCHAS SUGAR FROM NEW  
SOURCES OF SUPPLY, SUCH AS QUEENSLAND STATE IN AUSTRALIA.  
BESIDES SUGAR, THE PRC ALSO IMPORTS NICKEL FROM CUBA,  
BUT NCNA JANUARY 14 NOTED THE OPENING OF A NEW NICKEL  
REFINERY IN THE PHILIPPINES , WHICH COULD PRESAGE PRC  
MOVES TO DIVERSIFY (AND DIVERT?) PRC IMPORTS FROM FAR  
AWAY CUBA TO SOUTHEAST ASIAN COUNTRIES MUCH CLOSER TO HOME,  
AND CLOSER TO PRC LONG-TERM POLITICAL AND ECONOMIC INTERESTS.  
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9. INSPECTION AND TESTING BUREAU STUDY GROUP VISITS JAPAN

CHINA COMMODITY INSPECTION AND TESTING BUREAU



DIRECTOR, CHANG MING, LEFT PEKING FOR JAPAN ON JANUARY 10 WITH A 13 MEMBER STUDY GROUP (NCNA). HIS VISIT RECIPROCATES THE VISIT BY A FRIENDSHIP DELEGATION FROM JAPANESE INSPECTION AND TESTING CIRCLES IN JUNE 1974.  
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HOPEFULLY, THIS PRC INTEREST IN FOREIGN EQUIPMENT AND TECHNIQUES WILL BROADEN TO INCLUDE OTHER ADVANCED COUNTRIES AS WELL. IF SO, VISITS BY A STUDY GROUP COULD BECOME A MEANS BOTH TO INTRODUCE FOREIGN WAYS AND TO DISCUSS STANDARDS. (UNCLASSIFIED)

#### 10. PRC AID TO AFRICA

FOLLOWING UP ON PREVIOUS PRC EFFORTS TO WOO LESS DEVELOPED COUNTRIES IN AFRICA AND LATIN AMERICA, TWO PRC AID AND ECONOMIC DELEGATIONS HAVE JUST RETURNED FROM LENGTHY AND EXTENSIVE TRAVELS THERE. VM AGRICULTURE AND FORESTRY, HAO CHUNG-SHIH, LEFT PEKING DECEMBER 7, JUST AFTER THE SIGNING IN OUAGADOUGOU OF AN AGRICULTURAL COOPERATIONS PROJECTS PROTOCOL, TO ATTEND UPPER VOLTA'S NATIONAL DAY CELEBRATIONS (ER 25). THE NEIGHBORING COUNTRIES OF NIGER AND CHAD WERE ON HIS ITINERARY AS WELL. BOTH THE LATTER COUNTRIES HAVE RECEIVED PRC GRAIN GRANTS, AND OBTAINED ITS AGREEMENT TO COMPLETE ROC INITIATED RICE-GROWING PROJECTS. IN NIGER FURTHER IMPLEMENTATION OF THE JULY 20, 1974 AID AGREEMENT WAS PRESUMABLY DISCUSSED WITH VICE PRESIDENT AND MINISTER FOR DEVELOPMENT SIDDO. IN CHAD, A CHINESE AGRICULTURAL STUDY MISSION THERE IN DECEMBER 1973 MAY HAVE PREPARED FOR HAO'S DISCUSSIONS WITH PRESIDENT TOMBALBAYE AND THE CHADIAN MINISTER FOR MODERN ECONOMY, COMMERCE, PLANNING, AND INTERNATIONAL COOPERATION. FROM N'DJAMENA THE DELEGATION LEFT FOR HOME ON JANUARY 11. (UNCLASSIFIED)

#### 11. RECENT REPORTS ON ECONOMIC TOPICS

HK 942 NEW PRC-DUTCH SHIPPING COMPANY

HK 922 FOREIGN EXHIBITIONS - GERMAN FAIR TO FIZZLE?

HK 910 ECONOMIC ASPECTS OF CHINA'S NPC (SECOND OF A SERIES): PREMIER CHOU'S GOVERNMENT WORK REPORT

HK 818 ECONOMIC ASPECTS OF CHINA'S NPC (FIRST OF A SERIES); THE CONSTITUTION

HK 476 PRC GIVE HIGH PRIORITY TO AGRICULTURAL CAPITAL CONSTRUCTION  
CROSS

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** CERP 0003, ECONOMIC REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 JAN 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** MorefiRH  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750030-0901  
**From:** HONG KONG  
**Handling Restrictions:** n/a  
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**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
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**Original Previous Handling Restrictions:** n/a  
**Page Count:** 9  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
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**Reference:** 75 CERP 0003  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** MorefiRH  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 09 MAY 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <09 MAY 2003 by ShawDG>; APPROVED <15 MAY 2003 by MorefiRH>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PEOPLE'S REPUBLIC OF CHINA -- ECONOMIC REVIEW 2  
**TAGS:** ECRP, CH, XX  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006